



# **AccountingAidSociety**

## **Refund and Tax Due Returns**

# Refunds

## Refund Options for Taxpayers

Taxpayers may choose to:

- **Apply overpayment** to next year's taxes as a **credit forward**
- **Receive refund by direct deposit** to any financial account (checking, savings, or prepaid debit card) with a valid

Routing Transit Number

- **Direct deposit benefits:**
  - Faster refunds (typically **10–21 days**)
  - No risk of lost or stolen checks
  - Saves taxpayer dollars — it's cheaper to process
  - Must be deposited into **accounts in the taxpayer's name**
- **Receive refund by check** (all or part)

# Refunds Example

## Example:

**Alex** is due a **\$1,000 Michigan income tax refund** for 2025. He chooses to:

- Apply **\$200** toward his **2025 taxes** as a credit forward
- Direct deposit **\$700** into his **checking account**
- Receive the remaining **\$100** as a **paper check**

Because Alex used **direct deposit**, he received that portion of his refund within **10-21 days**, while the check arrived later by mail.

# Tax Due Returns

## Electronic Payment & Late Payment Penalties – Michigan

- **Electronic Payment Option:**
  - Taxpayers can now make payments electronically for their Michigan income tax.
- **Small Balance Rule:**
  - If the **balance due is less than \$1**, no payment is required. However, the **return must still be filed**.
- **Late Payment Rules:**
  - If payment is made **after the due date**, the taxpayer will owe **penalty and interest**.
- **Penalty Structure:**
  - Penalty is **5% of the tax due per month** (or part of a month).
  - After **two months**, an additional **5% per month** applies.
  - Maximum total penalty is **25% of the tax due**.
  - **Example:** If \$500 is owed and goes unpaid for six months, the total penalty will be **\$125**.

# Tax Due Returns Example

## Example:

**Jasmine** owes **\$500** in Michigan income tax for 2025. She files her return on time but forgets to pay the balance due.

- She makes the payment **6 months late**.
- Michigan charges a **5% penalty per month**.
- After the second month, the penalty **increases to 10% per month**.
- The **maximum penalty** is **25%** of the amount due.

## Penalty Calculation:

25% of \$500 = **\$125**

So Jasmine must pay **\$625 total** (\$500 tax + \$125 penalty), **plus interest**.

# Estimated Payments

- Estimated income tax payments must be made if a client is expected to owe more than \$500 when they file their 2025 MI-1040.
  - This is after crediting the property tax, any other refundable or nonrefundable credits, and amounts they paid through withholding.
- Common income sources which make estimated payments necessary are self-employment income; salary, wages or retirement benefits if enough tax is not withheld; tips, lump-sum payments, unemployment benefits, dividend and interest income; income from the sale of property (capital gains), and business income.
- Estimated payments are due April 15, 2025; June 16, 2025; September 15, 2025; and January 15, 2026 .

# Estimated Payments Example

## Example: Estimated Income Tax Payments Requirement

Carlos is a freelance graphic designer who lives in Michigan. He is self-employed and expects to earn **\$45,000** in 2025. He doesn't have an employer withholding taxes, and after subtracting the following:

- **\$1,500** in property tax credit
- **\$1,000** in other refundable credits
- **\$0** in withholding (since he's self-employed)

He still expects to owe **about \$2,200** when he files his 2025 MI-1040.

## Result:

Because Carlos expects to owe **more than \$500**, he is **required to make estimated payments** to avoid penalties and interest. He should make payments on or before the following dates:

- ✓ **April 15, 2025**
- ✓ **June 16, 2025**
- ✓ **September 15, 2025**
- ✓ **January 15, 2026**

# Estimated Payments

## Estimated Tax Payment Exceptions & Penalties

### Exceptions – No need to pay estimates if:

- You expect to owe over \$500 **but** withholding will cover at least:
  - **90% of current year tax**, or
  - **100% of prior year tax**

### Failure to Pay or Underpay estimated payments:

- **Penalty:**
  - 25% of tax due (minimum \$25) if no payments made
  - 10% of underpaid/late payments (minimum \$10)
- **Interest:**
  - **1% above the prime rate**, calculated **monthly**



# Estimated Payments Example

## Example: Estimated Tax Exemptions & Penalties

Nadia is a part-time contractor and part-time W-2 employee.  
She expects to owe **\$800** when filing her 2025 Michigan tax return.

However, she **increased her W-2 withholding** in early 2025 to cover **at least 90%** of her total expected tax liability for the year.

## Result:

- **Nadia does NOT need to make estimated payments** because she meets the exception:  
 Her withholding will cover at least 90% of her total tax.

## Alternate Scenario:

If Nadia **had not increased her withholding** and didn't make any estimated payments:

- She could face a **penalty of 25% of the \$800 due**, which is **\$200** (since the minimum penalty is \$25).
- Interest would also apply, calculated **monthly at 1% above the prime rate**.

# Practice Scenario

## Scenario:

Alex is due a \$1,000 Michigan income tax refund for 2025. He decides to apply \$200 to his 2025 taxes, direct deposit \$700 into his checking account, and receive \$100 as a paper check.

## Question:

What benefit did Alex likely experience from choosing direct deposit?

- A. He avoided paying taxes on his refund
- B. He received the check portion before the direct deposit
- C. He received the direct deposit portion within 10–21 days
- D. He was not required to file a return

# Practice Scenario


## Scenario:

Alex is due a \$1,000 Michigan income tax refund for 2025. He decides to apply \$200 to his 2025 taxes, direct deposit \$700 into his checking account, and receive \$100 as a paper check.

## Question:

What benefit did Alex likely experience from choosing direct deposit?

- A. He avoided paying taxes on his refund
- B. He received the check portion before the direct deposit
- C. He received the direct deposit portion within 10–21 days
- D. He was not required to file a return

 *Explanation:* Direct deposit refunds are typically received faster than paper checks and reduce the risk of loss or theft

# Practice Scenario

**Scenario:**

Jasmine owes \$500 in Michigan income tax for 2025. She files on time but pays the balance 6 months late.

**Question:**

How much penalty will Jasmine owe for paying late?

- A. \$25
- B. \$100
- C. \$125
- D. \$250

# Practice Scenario

## Scenario:

Jasmine owes \$500 in Michigan income tax for 2025. She files on time but pays the balance 6 months late.

## Question:

How much penalty will Jasmine owe for paying late?

- A. \$25
- B. \$100
- C. \$125
- D. \$250

● *Explanation:* A 25% penalty applies after six months of nonpayment.  $25\% \text{ of } \$500 = \$125$ .

# Practice Scenario

**Scenario:**

Carlos is self-employed and expects to owe \$2,200 in taxes after credits and withholding for 2025.

**Question:**

What is Carlos required to do to avoid penalties?

- A. File early
- B. Apply for a payment plan
- C. Make estimated tax payments quarterly
- D. Only pay once he files his return

# Practice Scenario

## Scenario:

Carlos is self-employed and expects to owe \$2,200 in taxes after credits and withholding for 2025.

## Question:

What is Carlos required to do to avoid penalties?

- A. File early
- B. Apply for a payment plan
- C. Make estimated tax payments quarterly
- D. Only pay once he files his return

● *Explanation:* Taxpayers expecting to owe over \$500 must make estimated payments to avoid penalties.

# Practice Scenario

## Scenario:

Nadia expects to owe \$800 in 2025. She increased her W-2 withholding to cover 90% of her total tax.

## Question:

Is Nadia required to make estimated payments?

- A. Yes, because she owes more than \$500
- B. No, because her withholding covers 90% of the tax
- C. Yes, because she is a contractor
- D. No, because she expects a refund



# Practice Scenario


## Scenario:

Nadia expects to owe \$800 in 2025. She increased her W-2 withholding to cover 90% of her total tax.

## Question:

Is Nadia required to make estimated payments?

- A. Yes, because she owes more than \$500
- B. No, because her withholding covers 90% of the tax
- C. Yes, because she is a contractor
- D. No, because she expects a refund

 *Explanation:* One exception to the estimated tax requirement is if withholding covers 90% of the total expected tax liability.

# Practice Scenario

## Scenario:

A taxpayer expects to owe \$1,800 for 2025 after accounting for credits and withholding.

## Question:

Which of the following is NOT an estimated payment due date for 2025?

- A. **April 15, 2025**
- B. **June 17, 2025**
- C. **September 15, 2025**
- D. **January 15, 2026**

# Practice Scenario

## Scenario:

A taxpayer expects to owe \$1,800 for 2025 after accounting for credits and withholding.

## Question:

Which of the following is NOT an estimated payment due date for 2025?

- A. April 15, 2025
- B. June 17, 2025
- C. September 15, 2025
- D. January 15, 2026

 *Explanation:* The actual due dates are April 18, June 15, September 15, and January 17.

# End of Refund and Tax Due Returns

Take a few moments with your table and discuss any questions you may have regarding this topic.